THE CONCEPT OF RISK IN THE ACTIVITIES OF COMMERCIAL BANKS AND ITS ESSENCE

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Annotation. This article describes the risks inherent in the activities of commercial banks and measures taken to reduce their impact. Scientific proposals and recommendations have also been developed to reduce the risks associated with credit risks while ensuring the financial security of commercial banks.

Keywords: commercial banks, economic security, risk, banking, risk management, interest rate, economic efficiency, loss, profit.

Modern banking is directly related to various risks, and effective management of them is one of the most important functions of banks. The risk is different in any banking transaction and is covered in different ways. In a market economy, it is very difficult to find risk-free transactions that guarantee the achievement of a predetermined financial result. It is important for commercial banks not to avoid risks, but to eliminate and minimize them.

Banking risks began to be studied by economists back in the eighteenth and nineteenth centuries because of their importance as an object of study. However, there is no single approach to their essence. Many scientists attribute the causes of risk to circumstances, factors that lead to damage. I. V. Bernard and J. K. Colley interpreted "credit risk as a type of bank risk, which is an unforeseen event that may occur before the loan is repaid." The International Basel Committee, when assessing capital adequacy, defines credit risk as "the risk of default by the counterparty".

It should be noted that the bank's risk is a category describing a specific situation in its activities, indicating that the expected result is negative and the results are uncertain. Two important aspects of bank risk should be taken into account: firstly, the ambiguity of the situation in which the decision is made; secondly, it is a negative change in the planned result. In this regard, it is advisable to pay attention to the following three categories:

1. Expenses: interest paid by the bank to depositors and creditors for borrowed funds, salaries of employees and other operating expenses. Risks in the implementation of banking expenses can take the following forms: an increase in interest costs on deposits due to changes in market conditions, an increase in their purchase price due to a lack of credit resources, an increase in salaries of bank employees due to rising prices for other banks, etc.

2. Losses: due to unforeseen circumstances, non-receipt of income due to poor study of the situation in current activities and excess of planned expenses. The risk of losses arises primarily as a result of irrational allocation of funds, incorrect assessment of market opportunities and risks.

3. Losses. An indicator of the overall risk of commercial banks is an unexpected decrease in net profit. This indicator covers the above categories. It follows that the level of risk in the bank's strategy and operations is reflected in the risk of losses of the bank. Risk and losses are considered interrelated, and risk can be quantified through losses. Risk is usually estimated in absolute and relative terms. Quantitatively, the risk reflects the amount of losses that the bank may incur as a result of a particular operation. However, it is not always possible to estimate these losses. If the probability of loss is proportional to the indicator characterizing the bank's activities, for example, the loan portfolio, the amount of income or expenses, a relative risk indicator arises.

Our research shows that the main causes of risks in the banking sector are:

• poor market research;

• inaccurate or insufficient information in the field of attracting and placing resources;

• unreliable or incomplete information about the project, the facility and the credited clients, their financial condition;

• failure to take into account the specifics of the activities of industries or sectors;

• qualifications and level of subjects or clients, diversity of knowledge and goals for the use of funds, etc.

The increase in the level of risk in commercial banks can be explained by the following factors:

• problems occur randomly, unexpectedly;

• when identifying new tasks that do not correspond to previous experience;

• inability of the bank's management to make a decision to prevent financial losses;

• in certain circumstances, the legislative framework or banking activities prevent the adoption of appropriate decisions, etc.

In practice, the assessment of banking risks takes into account the possibility of customers' insolvency, a sharp deterioration in their financial condition, changes in exchange rates and securities, as well as the possibility of returning part of the funds, etc.

Effective management of banking risks, in turn, requires taking the necessary measures to predict potential threats to banking activity, correctly assess the level of their probability, factors and negative consequences and eliminate them. At the same time, risk management in the banking sector is carried out simultaneously with the general banking system and a separate banking institution. The consistency of their activities is determined by banking supervision and staff qualifications based on mathematical evaluation methods.

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